



Bill Owens
Governor

Colorado Department of Local Affairs

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Acting Executive Director

DIVISION OF PROPERTY TAXATION

JoAnn Groff
Property Tax Administrator

BULLETIN NO. 12

TO: County Assessors

FROM: JoAnn Groff
Property Tax Administrator

DATE: March 30, 2006

THE BULLETIN IS AVAILABLE ON OUR WEBSITE.

www.dola.state.co.us/propertytax/index.htm

<u>Date</u>	<u>Title</u>	<u>Distribution</u>
3/27/06	2006 Possessory Interest Valuation Rates	Circulate to appraisal staff as appropriate. File in ARL Volume 3, Chapter 7.
3/29/06	Revised 2006 DPT Education Calendar	File in Education File.





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JoAnn Groff
Property Tax Administrator

TO: All County Assessors

FROM: JoAnn Groff
Property Tax Administrator

SUBJECT: 2006 Possessory Interest Valuation Rates

DATE: March 27, 2006

DISTRIBUTION: Circulate to Appraisal Staff as Appropriate
File in ARL Volume 3, Chapter 7.

MEMORANDUM

The following attachment is to be used for the valuation of possessory interest properties for the 2006 assessment year.

ADDENDUM 7-D POSSESSORY INTEREST VALUATION RATES and,
Various replacement pages regarding possessory interest.

On March 16, 2006, the Statutory Advisory Committee to the Property Tax Administrator (SAC) recommended the attached rates and edited pages for approval and use in 2006. The State Board of Equalization (state board) met on March 24, 2006, and approved the submittal.

Please note that since 2006 in an intervening year, the level of value adjustment factor is included and must be applied as required by 39-1-103(17)(II)(B), C.R.S.

If you have any questions regarding ADDENDUM 7-D and the edited pages, please contact Judy Kahl or Ron Benko at 303.866.2371.



ADDENDUM 7-D, POSSESSORY INTEREST VALUATION RATES

The following rates will be used for the valuation of Possessory Interest properties for 2006.

SKI AREA RECREATIONAL CAPITALIZATION RATE

2006:

The pass-through component of the ski area capitalization rate represents the percentage of fees returned to the state by the U.S. Forest Service (USFS) from fees paid by users of USFS land. Historically, the amount paid back has been 25 percent. However, beginning in 2001, counties could choose either the historical 25 percent payback or a "Full Payment Amount" (FPA) that represented the average of the highest three years payback from 1985 to 2001. Therefore, we have developed a separate pass-through component for the FPA counties that recognizes the higher return of USFS fees.

The following counties with ski areas chose the FPA option and are to use the following capitalization rate in the assessment of ski areas:

Boulder, Chaffee, Clear Creek, Eagle, Garfield, Grand, Gunnison, Lake, La Plata, Mesa, Mineral, Pitkin, Routt, and Summit

Capitalization Rate	12.50 percent	(Determined by the Division)
Pass-Through Rate	+ 7.70 percent	(Determined by the Division)
Effective Tax Rate	<u>+</u>	(Determined Locally)
	=	Adjusted Capitalization Rate

The following county with a ski area, San Miguel, is to use the following adjusted capitalization rate based on the historical 25 percent pass-through.

Capitalization Rate	12.50 percent	(Determined by the Division)
Pass-Through Rate	+ 4.50 percent	(Determined by the Division)
Effective Tax Rate	<u>+</u>	(Determined Locally)
	=	Adjusted Capitalization Rate

2006 LEVEL OF VALUE ADJUSTMENT FACTOR, 39-1-103(17)(II)(B), C.R.S.

2006 Possessory Interest LOV Factor – Real Property	0.93
2006 Possessory Interest LOV Factor – Personal Property	0.92

Valuing Ski Area Possessory Interests

The statute, 39-1-103(17)(a)(I), C.R.S., specifically requires that the valuation of ski area possessory interest is determined by capitalizing at an appropriate rate the annual fee paid by the lessee or permittee. The rate used to capitalize any fee paid by the ski area includes an appropriate rate of return, an appropriate effective tax rate and an appropriate adjustment to reflect the portion of the fee, if any, required to be paid over by the United States to the state of Colorado and its political subdivisions.

The possessory interest valuation method is applied only to the real and personal property under agreement from the United States. Privately owned land, improvements, and personal property located on the property are separately valued considering the cost, market and income approaches to appraisal.

Definition of Capitalization of Income for Ski Area Possessory Interests

The previous year's fees paid for the use of the USFS land for a ski area is capitalized into a value of the possessory interest.

Data Needed to do the Capitalization of Income Approach

- Previous year's permit fees
- Capitalization rate
- Pass-through rate
- Effective tax rate as of the assessment date

Obtaining Ski Area Permit Fees from USFS

For information on how to contact the respective agency for a list of necessary information for use in classification and valuation of possessory interests, refer to the **DISCOVERY OF POSSESSORY INTERESTS** portion of the procedure.

Development of the Capitalization Rate

The capitalization rate is developed and published by the Division every year using the Weighted Average Cost of Capital technique (WACC) and may be found in **Addendum 7-D**. For more detailed information on the calculation of the ski area capitalization rate contact the Division.

Development of the Pass-Through Rate

The pass-through component of the ski area capitalization rate represents the percentage of fees returned to the state by the U.S. Forest Service (USFS) from fees paid by users of USFS land. Historically, the amount paid back has been 25 percent. However, beginning in 2001, counties could choose either the historical 25 percent payback or a "Full Payment Amount" (FPA) that represented the average of the highest three years payback from 1985 to 2001. Therefore, the Division developed a separate pass-through component for the FPA counties that recognizes the higher return of USFS fees. The pass-through rate may be found in Addendum VII-D. For more detailed information on the calculation of the ski area pass-through rate contact the Division.

Development of the Effective Tax Rate

The effective tax rate is developed by the county to account for property taxes paid by the possessory interest owner of the ski area recreational land for the possessory interest assessment. In the calculation, the county uses the mill levy prior to the assessment date for the tax area where the ski area is located.

$$\begin{array}{l} \text{Mill Levy (as a decimal; based on location of the possessory interest)} \\ \times \quad .29 \text{ (assessment rate as a decimal)} \\ \hline \text{Effective Tax Rate (expressed as a decimal equivalent)} \end{array}$$

Calculation of the Adjusted Capitalization Rate

The adjusted capitalization rate is composed of three components.

$$\begin{array}{l} \text{Capitalization rate (calculated by the Division)} \\ + \text{ Pass-through rate (calculated by the Division)} \\ + \text{ Effective tax rate (calculated by the county)} \\ \hline \text{Adjusted Capitalization Rate} \end{array}$$

Application of the Adjusted Capitalization Rate

After the adjusted capitalization rate is calculated it is applied to the USFS previous year's fee amount. The resulting number is the actual value of the possessory interest in the Forest Service land.

$$\begin{array}{l} \text{Fees paid to USFS (from USFS)} \\ \div \text{ Adjusted Capitalization rate (developed by the county and the Division)} \\ \hline \text{Value of the possessory interest} \end{array}$$

Adjusting the Present Value of the Possessory Interest to Actual Value by Use of the Level of Value Adjustment Factor

Pursuant to 39-1-103(17)(a)(I) and (II)(B), C.R.S., the administrator is required to establish the level of value adjustment factor(s) for possessory interests using the same procedures and principles as are provided for property in section 39-1-104(12.3)(a)(I), C.R.S. For each assessment year, the Division of Property Taxation publishes separate level of value adjustment factors for real and personal property possessory interests.

For the first year, the adjustment factor is always **1.00** because the first year of the reappraisal cycle is the base year from which the adjustment for the second year is taken. If the value is for the intervening year of the two-year cycle, the actual value is adjusted to reflect the value as of the June 30 appraisal date.

Please refer to **Addendum 7-D** for the adjustment factors to be used for the current assessment year.

Steps in the Valuation of Ski Area Possessory Interests

39-1-103(17)(a)(I), C.R.S., requires that the assessor use only the capitalization of income approach to determine the value of the possessory interest of ski area recreational lands.

Steps in the valuation process:

STEP #1 Obtain the amount of fees paid for the previous calendar year.

Use data collected by the Division and provided to the counties or contact the United State Forest Service (USFS) district forest supervisor's office in which the ski area is located. If unsure as to where the local office is, refer to the **DISCOVERY OF POSSESSORY INTERESTS** portion of the procedure for the name and address of the central office.

STEP #2 Develop the applicable adjusted capitalization rate.

Calculate the applicable adjusted capitalization rate:

- Capitalization rate (calculated by the Division)
- + Pass-through rate (calculated by the Division)
- + Effective tax rate (calculated by the county)

Adjusted Capitalization rate*

*The capitalization rate should be rounded to four (4) decimal places.

Additional information regarding how the discount and pass-through rates are developed may be obtained by contacting the Division of Property Taxation.

STEP #3 Calculation of the actual value of the possessory interest.**Example calculation of ski area recreational land:****Assumptions:**

➤ Previous Year's USFS fees	\$50,000
➤ Capitalization Rate (published by the Division)	+.1449
➤ Pass-through rate (published by the Division)	+.0483
➤ Effective tax rate (calculated by the county)	+.0232
➤ Adjusted capitalization rate (decimal)	.2164

Calculation of Value:

Previous Year's USFS fees	\$50,000
Adjusted Capitalization Rate	÷ .2164
Value of the possessory interest	\$231,054

STEP #4 Apply the level of value adjustment factor published by the Division.

The calculation of the actual value of the possessory interest is:

$$\frac{\text{Capitalized value of the possessory interest}}{\text{X Level of value adjustment factor (published by the Division)}}$$

Actual Value of the possessory interest

The Division publishes the capitalization rate and pass through rate used by all county assessors each year. For intervening assessment years (even numbered years), the Division publishes the adjustment factor used by all assessors to adjust values to the appraisal date in effect for that reappraisal cycle.

Apportionment of Possessory Interest Values in Land between Two or more Counties

In most circumstances, possessory interests are located in a single county and no apportionment is necessary. However in some instances, land under agreement lies in more than one county and thus requires an apportionment of the actual value of the possessory interest to each county.

Prior to determining the apportionment, counties that border the national forest or other land wherein the possessory interest use exists should agree on the final actual value for the possessory interest.

For example, grazing permit fees based on Animal Unit Month (AUM) allotments are charged by the USFS for rights to graze livestock on national forest land. However, there is no specific legal description, acreage, or county specifically identified in the agreement. In this situation, an apportionment of the actual value of the possessory interest to all counties having acres of that national forest in each county is necessary.

The apportionment percentage is based on acreage of land contained within each county divided by the total number of acres in the USFS.

An example of the apportionment procedure:

Actual value of the possessory interest located in the national forest	\$100,000
National forest acreage located in more than one county - County #1	10,000 acres
County #2	<u>40,000 acres</u>
Total acreage in national forest	50,000 acres

Apportionment Percentage Calculations

County #1	$10,000 \div 50,000 = .20$	$\times \$100,000 = \$ 20,000$	Apportioned value
County #2	$40,000 \div 50,000 = .80$	$\times \$100,000 = \underline{\$ 80,000}$	Apportioned value
		\$100,000	Total actual value

When apportionments are necessary, the Division can provide the number of acres of national forest land within each county's boundaries.

Each county will send a tax bill for its apportioned share of the total value.



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Property Tax Administrator

TO: All County Assessors

FROM: JoAnn Groff
Property Tax Administrator

SUBJECT: **Revised** 2006 DPT Education Calendar

DATE: March 29, 2006

DISTRIBUTION: File in Education File.

Memorandum

An updated 2006 Division education schedule is attached.



2006**EDUCATION CALENDAR****January**

9-13	Introduction to Assessment	Broomfield
17-18	Personal Property	Aurora
23-27	Introduction to Assessment	Castle Rock and Grand Junction
24-26	Introduction to Appraisal	Lone Tree
25-26	Personal Property	Montrose
30 – Feb. 3	Income Approach to Value	Grand Junction

February

Postponed	Basic Title Conveyance	Aurora
Postponed	Advanced Title Conveyance	Aurora
7-9	Introduction to Appraisal	Grand Junction
7	Oil and Gas Netback	Weld County
8	Oil and Gas Equipment (BELs)	Weld County
9	Oil and Gas Pipelines	Weld County
14-15	Complex Residential Properties & the GRM	Lone Tree
23	Possessory Interest	Broomfield
27 – Mar. 3	Introduction to Assessment	Alamosa
28 – Mar. 1	Complex Residential Properties & the GRM	Grand Junction

March

7-8	National USPAP Course (2-Day)	Broomfield
9	National USPAP Update	Lone Tree
14-16	Introduction to Appraisal	Alamosa
22	Oil and Gas Netback	Grand Junction
23	Oil and Gas Equipment (BELs)	Grand Junction
23	National USPAP Update	Sterling
24	Oil and Gas Pipelines	Grand Junction

April

3-7	Cost Approach to Value	Broomfield
5	Abatement Workshop	Greeley
6	National USPAP Update	Boulder
11	GIS	Golden
12	Abatement Workshop	Durango
18	GIS	Durango
18-19	Narrative Report Writing	Colorado Springs
19	Mapping Procedures	Durango
19	Sales Confirmation	Eagle
26	Mapping Procedures	Eagle
26	Abatement Workshop	Lincoln

May

15-19	Cost Approach	Walsenburg
16	Severed Minerals	Grand Junction
23	Severed Minerals	La Junta

2006**EDUCATION CALENDAR — Continued****June**

1	Severed Minerals	Fort Morgan
8	National USPAP Update	Craig
8	Basic Title Conveyance	Eagle
13	Assessment Appeals	Colorado Springs
20-21	Advanced Income	Aurora
21-22	Manufactured Homes	Eagle

July

5	Assessment Math	Eagle
11	TIF	Greeley
11-12	Advanced Income	Durango
12-13	Abstract/Certification	Greeley
13-14	Narrative Report Writing	Durango
17	TIF	Eagle
18-19	Abstract/Certification	Eagle
20	Assessment Math	Pueblo
24-28	Administration 701	Grand Junction
26-27	Abstract/Certification	Walsenburg

August

TBD	Administration 701	Aurora
1	Basic Title	Golden
2	Advanced Title	Golden
7-11	Market Approach to Value	Lone Tree
14-18	Market Approach to Value	Grand Junction

September

6-7	Manufactured Homes	Morgan
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October

TBD	Introduction to Assessment	Metro
2-5	CATA Conference (19 Classes in 2005)	Copper Mountain
12	Time Trending	Aurora
23-27	Administration 702	Metro and Grand Junction
30 – Nov. 3	Administration 702	Sterling
31	National USPAP Update Course	Golden

November

1-2	National USPAP Course	Golden
13-17	Income Approach to Value	Broomfield and Grand Junction
28-29	Undetermined Courses	Aurora

December

	Law Seminar	Pending
TBD	Ownership, Legal Descript. & Mapping	Montrose, Walsenburg, and Metro
12	National USPAP Update	Grand Junction
13	Ownership, Legal Descript. & Mapping	Walsenburg
13-14	National USPAP Course (2-Day)	Grand Junction